DOCUMENT RESUME

ED 272 041 HE 018 964

TITLE	Financial Planning and Management Manual for U.S. Medical Students.
INSTITUTION	Association of American Medical Colleges, Washington, D. C.
PUB DATE	84
NOTE	33p.
AVAILABLE FROM	Association of American Medical Colleges, One Dupont Circle, N.W., Suite 200, Washington, DC 20036 ($4.95; 2-24 copies, 20% discount; 25 or more, 30% discount).
PUB TYPE	Guides - Non-Classroom Use (055) -- Reference Materials - General (130)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	*Budgeting; Check Lists; Family Income; Financial Problems; *Financial Support; *Graduate Medical Students; Higher Education; Loan Repayment; *Medical Students; *Money Management; Parent Financial Contribution; Private Colleges; Private Financial Support; State Colleges; *Student Costs; Student Employment; Tuition
IDENTIFIERS	College Costs; *Debt (Financial); United States

ABSTRACT

A guide to financing medical school studies is presented. Financial planning should ideally begin as soon as medical school admission becomes a possible goal. Information is provided to help estimate costs and identify sources of financial aid, including help provided by a spouse or parents, institutional assistance, private loans/scholarships, and part-time employment. Strategies for parents, in lieu of gifts or loans, are identified: savings plans, tax incentives, and trusts. To assist in financial planning and budgeting, a budget worksheet and a form for recording loans/debts are included, along with a sample debt record chart for a student planning to graduate from medical school in June 1988. A factor chart to estimate monthly loan payments represents the monthly amount payable for a principal of $1,000 for payout of 10, 15 and 20 years. Financial problems typically faced by residents are also addressed, including: deciding on the desirability of a second income through moonlighting or a spouse's employment, repaying education loans, changes in lifestyle and standard of living on the resident's limited income, withholdings from the resident's paycheck, redeveloping the budget, and using credit. A glossary is appended. (SW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED272041

FINANCIAL PLANNING AND MANAGEMENT MANUAL

FOR U.S. MEDICAL STUDENTS

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☐ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY

AAMC

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

HEALD 964

aamc

ASSOCIATION OF AMERICAN MEDICAL COLLEGES
One Dupont Circle, N.W. Washington, D.C. 20036

TABLE OF CONTENTS

INTRODUCTION 1

CHAPTER I. FINANCING YOUR MEDICAL EDUCATION 2

Estimating Costs 2

Considering Family Resources 3

You and Your Spouse

Your Parents

Dependence or Independence

Strategies for Parents: Savings Plans, Tax Incentives and Trusts

Thinking About Other Resources 5

Institutional Assistance

Private Funding - Loans and Scholarships

Scholarships with a Service Commitment

Loans

Part-Time Employment

Keeping Financial Aid Records 8

References 9

CHAPTER II. PLANNING AND BUDGETING 10

Planning 10

Budgeting 10

Developing Comfortable Financial Goals 11

Becoming Familiar With the Mechanics of a Budget 11

References 12

Budget Worksheet 13

CHAPTER III. MANAGING YOUR DEBTS 14

Keeping Records 14

Recording Your Loans: Debt Record Worksheet 15

Estimating Monthly Loan Payments 15

Determining Debt Levels You Can Manage 17

References 19

CHAPTER IV. SURVIVING THE FINANCIAL STRAIN OF RESIDENCY 20

Having Income 20

Deciding If a Second Income Will Make a Difference 20

Spending Your Hard-Earned Dollars 21

Dealing With Real Income 21

Repaying Your Education Loans 22

Revising Your Goals 23

Re-Developing Your Budget 24

Choosing a Financial Institution 24

Using Credit Judiciously 25

Planning with Tax Time in Mind 26

CHAPTER V. THINKING ABOUT FUTURE INCOME 27

GLOSSARY OF TERMS USED IN THIS MANUAL 28

LIST OF TABLES

TABLE ONE	Tuition and Fee Trends	(3)
TABLE TWO	Trends in Expenses Other than Tuition and Fees	(4)
TABLE THREE	Sample Debt Record Chart	(15)
TABLE FOUR	Factors for Estimating Monthly Loan Payments at Simple Interest	(17)
TABLE FIVE	Sample Monthly Payment Chart	(17)
TABLE SIX	Mean Housestaff Stipends Nationwide, 1983–84	(19)
TABLE SEVEN	Debt Payments as a Percentage of 1983–84 Mean Housestaff Stipends	(19)

ACKNOWLEDGEMENTS

Many persons have been involved in developing this financial planning guide. The stimulus, encouragement and ongoing assistance of members of the Group on Student Affairs Committee on Student Financial Assistance played an important role. Deborah Taussig-Boehner, Medical College of Georgia, researched the topic, wrote the first draft, and provided assistance with successive revisions. Robert J. Boerner, Director, Division of Student Programs, Association of American Medical Colleges, and Julie Harbaugh Reilly, Staff Assistant in the Division, edited each of the several drafts. The following persons, whose contributions were invaluable, took time to review and critique each draft: Cheryl Wilkes, Medical College of Georgia; Frances Hall and Nanci G. Cirone, Dartmouth Medical School; Norma Wagoner, University of Cincinnati College of Medicine; Roberta Popik, Northwestern University; Linda B. Troy, Saint Louis University; August G. Swanson, M.D., Director, Department of Academic Affairs, Association of American Medical Colleges. Finally, Patricia Lynn, Division of Student Programs, Association of American Medical Colleges, typed each of the many drafts and prepared the final copy.

Copyright 1984 by the Association of American Medical Colleges.

INTRODUCTION

This book deals with a topic of vital concern to you—paying for your medical education. As the costs increase and the assistance available from the federal government and other sources dwindles, many will find it more difficult to support their medical education. It, therefore, becomes essential for financial planning to occur well in advance of entry into medical school. You must consider what you and your family can contribute, what additional resources such as government grants and loans are available to supplement your own funds and what they will cost in both the short and long terms, and when and how you will be able to repay money borrowed to finance your medical education.

As financial aid and student affairs administrators have worked with prospective and enrolled medical students and residents, they have become increasingly concerned about the growing debt burden associated with medical education. It has become obvious that to minimize this debt, financial planning and money management skills are badly needed. The simple fact is that you must negotiate large student loans with repayment schedules that can be staggering, even for a profession with a fairly high earnings potential.

Ideally, financial aid counselors assist you in this endeavor, but there are too many of you and too few counselors, and the amount of information that must be exchanged is too great and too technical for this to be practical in every instance. The risk, then, is that you will be caught without basic information about how to survive the financial trauma of medical school and residency training.

With this background in mind, the Committee on Student Financial Assistance of the Association of American Medical Colleges' Group on Student Affairs developed this financial planning manual for use by anyone concerned with financing a medical education at any point from college through residency. It is a tool that can be used by financial aid officers with individual students or with groups. Some of the topics may seem elementary, but are included because financial aid counselors have discovered that applicants and students may lack fundamental knowledge about financial matters. The range of topics is broad covering both simple things like how to develop a budget and keep track of incidental expenses, and more sophisticated items such as savings plans and long-range strategies for financing a medical education.

You can begin at the beginning or refer directly to the section that addresses your immediate need. You might also take this book to someone in your school's financial aid office and work together to resolve your current problem and do some planning to forestall future financial anxieties. We hope this book will prove helpful to you, and we welcome your comments about it.

I. FINANCING YOUR MEDICAL EDUCATION

Medical education is costly and paying for it is a long-term prospect for most students. Financial planning—identifying financial resources, estimating costs and developing strategies to meet those costs—should begin as soon as admission to medical school becomes a possible goal. Unfortunately, many students wait until they are admitted or until they encounter financial difficulty before taking a comprehensive look at their financial situation. This chapter is a guide to such a basic evaluation. It includes estimating costs, becoming aware of and evaluating financial resources and obtaining financial assistance. This information should be helpful to students who are beginning financial planning for medical school or evaluating, reassessing or revising such plans.

ESTIMATING COSTS

The ever-increasing expenses of medical school coupled with the effects of inflation make cost planning an important aspect of financing your medical education. Medical schools make available current tuition figures as well as the living expense budget that is being used by the financial aid office. You will need these figures in order to estimate the cost of your medical education.

Tuition and fees as set by the school or the state are fixed expenses for all students. There is no foolproof method for forecasting these amounts, because variations in the sources of operating funds frequently cause unexpectedly high increases to occur. The best approach to determining approximate tuition costs for the several years of medical school is to study the trend over the past five years, noting how often tuition and fees have been raised and the typical rate of increase. In comparing individual schools with national averages, the following chart (Table One) may be helpful.[1] Complete it with the figures from the medical school of your choice.

TABLE ONE
TUITION AND FEE TRENDS

	PUBLIC SCHOOLS*		PRIVATE SCHOOLS		YOUR SCHOOL	
	Average Tuition and Fees	Rate of Increase From Preceding Year	Average Tuition and Fees	Rate of Increase From Preceding Year	Average Tuition and Fees	Rate of Increase From Preceding Year
1979	2,214	—	7,135	—		
1980	2,303	4.0	8,197	14.9		
1981	2,699	17.2	9,586	16.9		
1982	3,123	15.7	11,063	15.4		
1983	3,619	15.9	11,848	7.1		
1984						
1985						
1986						
1987						
1988						

*Figures are for state residents.

Apply the same process to living expense figures. Financial aid offices base their budgets on known costs adjusted for inflation, the consumer price index or the actual rate of inflation. The budget should provide a basic standard of living with the expectation that virtually all

students can live within its limits. Because all schools do not budget for the same types of expenses, students should be aware of the expense categories used by the financial aid office of the school of their choice. The following chart (Table Two) illustrates national trends in living expenses.[2]

TABLE TWO
TRENDS IN EXPENSES OTHER THAN TUITION AND FEES*

	PUBLIC SCHOOLS		PRIVATE SCHOOLS		YOUR SCHOOL	
	Average Expenses	Rate of Increase From Preceding Year	Average Expenses	Rate of Increase From Preceding Year	Average Expenses	Rate of Increase From Preceding Year
1979	4,877	—	4,690	—		
1980	5,341	9.5	5,685	21.2		
1981	5,989	12.1	6,331	11.4		
1982	6,465	7.9	7,147	12.9		
1983	6,739	4.2	7,594	6.2		
1984						
1985						
1986						
1987						
1988						

*Includes room and board, books, equipment, supplies, transportation and entertainment.

These figures, of course, would change if family circumstances changed. A 1980 study by the United States Department of Health and Human Services indicated that twenty to forty percent of the first-year health professions students who completed the survey were married and 33 to 50 percent of the fourth-year health professions respondents were married. The study points out that while school-related expenses remained fairly constant for both unmarried and married students, married students, especially those with children, spent more each year on housing, food, and basic expenses than did single students.[3]

By charting tuition and fees, as well as living expenses, you can get a very rough estimate of the dollar amount you need for the years of medical school. Armed with these crude figures, you are ready for the next step in financial planning, the examination of available resources.

CONSIDERING FAMILY RESOURCES

"Be prepared to help yourself; you and your family should make the maximum effort to pay for your education." This statement or a similar one is included in virtually every United States medical school financial aid publication. Students and their families must assume primary responsibility for financing a medical education. As federal funding for student assistance declines both in real dollars and in relationship to educational costs, students who wish to earn an M.D. degree will have to rely heavily on assistance from their families, on what they themselves can contribute, and on the loan funds available to health professions students.

You and Your Spouse

Begin your consideration of how you will finance medical school by listing and examining all of the resources presently available to you. Resources include savings as well as anticipated income through summer employment or employment during the academic year. If you are married and your spouse has income, it is also considered a resource. It is expected that attainment of a medical education will be your primary financial priority, both individually and as a couple. Expect student aid only to supplement your spouse's earnings. The spouse of a medical

student is expected to work and to contribute virtually his or her total earnings to educational and living expenses. While it is expected that your spouse will work, it is important to realize that this will engender additional expenses, such as transportation, clothing, and child care, which could consume up to three-quarters of the additional income.

The importance of open and frequent communication concerning finances between you and your spouse cannot be over-emphasized. Since your spouse will have to contribute a sizeable portion of his/her salary to meet expenses, it is important that he or she be included in all financial decisions that have long-term implications for your future finances as a family. For example, your spouse should know when a loan becomes due, the monthly payment, and the number of years during which the payments will be made. Many students have found it helpful to include their spouse in all meetings with financial aid officials to open pathways of understanding about financial commitments and to foster the sharing that must occur for this financial undertaking to be truly a joint venture.

Your Parents

Your parents are the next resource for funding medical education. When measuring capability to contribute to education, schools employ a nationally recognized system of need analysis. The system will establish a reasonable contribution level based on your family's financial strength in relation to income, assets, age, employment expenses, medical expenses, tax liability, and family size. Parental contributions are often expected regardless of your dependency status.

Dependence or Independence

The United States Department of Education, at this writing, has established that you can be considered independent of your family if for the immediate past year and the current year:

1. Your parents have not claimed you as a dependent on their income tax returns;
2. You have not lived with your parents for more than six weeks; and
3. You have received less than $750 of support from your parents.

These criteria are very likely to change. The Department of Education has proposed to make this definition of independence more stringent by adding additional criteria and/or applying these criteria to an additional prior year or years.

There will, no doubt, continue to be minimum federal criteria for establishing independence from parental support. However, schools vary in the degree to which they recognize such independence. Thus, even if you are financially independent by federal standards, many medical schools will expect that your parents will contribute or that you will borrow an amount equal to the calculation of your family's reasonable ability to pay.

It is important for students and their parents to be open and honest about their financial situation and to reach an understanding concerning the parents' role as well as the student's role in funding a medical education. Many parents contribute by means of a gift, often borrowed from a commercial lender. Some loan funds either with an informal agreement to repay, or, increasingly, with a formal note guaranteeing repayment. When the latter is done the parties involved should discuss with a tax advisor the possibility of the student's paying interest on the loan and claiming the interest as a deduction on his/her income tax return. In this instance special care must be taken to draw up the terms of the loan in a document that will satisfy the requirements of the Internal Revenue Service.

Strategies for Parents: Savings Plans, Tax Incentives and Trusts

As alternatives to a gift or a loan there are other mechanisms for parents which may be more economically feasible and financially attractive. Because they require a fairly sophisticated financial planning background, it is essential that families interested in knowing more about them consult an accountant or tax attorney to determine their tax implications and become knowledgeable about their positive and negative aspects.

One such alternative is a savings plan established prior to the time funds are needed for undergraduate or graduate education. Some incentive exists under current tax laws for families to save for college, due to the fact that children generally face lower tax rates than their parents, and, because the federal government wishes to encourage parental savings plans for college, additional tax advantages for parents from a broader range of incomes are being considered. One way parents can use existing tax advantages is by setting up a custodian account under the Uniform Gifts to Minors Act in the name of their son or daughter to avoid or minimize the tax liability of the parent for income used for college expenses. Another strategy is for parents to borrow money, use the interest as a tax deduction, and allow a son or daughter to invest the loan in his/her own name and pay a lower tax on the earnings because of an overall lower income tax bracket.

Savings plans can also be linked to loans for college regardless of tax advantage. One such concept involves the use of funds deposited in a savings account as collateral for college loans. This "passbook loan" concept, already used for many kinds of consumer lending, may have a great deal of potential for student loans as well. The advantage in this approach is that the loan account can be several times larger than the funds deposited in the savings account (as the savings serve as partial collateral against default). In addition, interest rates can be kept below market levels since part of the loan is, in effect, being financed by relatively low-cost savings deposits.

Some state governments offer tax advantages to parents. New York State, for example, allows its residents to deduct up to $1,000 each year from their state taxable income for the purpose of saving for educational expenses.

Parents may also be interested in the possibility of creating a ten-year trust for their son or daughter. While it may be too late to benefit someone currently entering or already in medical school, it could be available for use by younger members of the family who may also anticipate large educational expenses. While there are many types of trusts, the essentials are similar and require that a donor put assets into an irrevocable trust account for a specified period of time, not less than ten years. Typical trust assets include stocks, bonds, cash, and certificates of deposit issued by a bank or savings and loan association and maturing at the beginning of each school year. The grantor names a beneficiary of the trust, who is taxed yearly on its earnings; the grantor pays taxes on any capital gains. The beneficiary receives periodic payments from the earnings as specified by the grantor. At the end of the trust period, the assets may either revert to the donor or remain with the beneficiary. In terms of a trust for your education, your parents, or other relatives in a position to do so, open an account, naming you as the beneficiary. You are taxed on the interest earnings of the trust, but receive periodic payments from these earnings as specified by the grantor, who pays taxes on any capital gains.

Be aware that this is a greatly simplified description of a typical ten-year trust. Moreover, because of the collateral required to set up such a trust, it is currently necessary to have fairly substantial assets in order to benefit from tax-related advantages. Finally, since trusts and other financial plans are relatively new, have many tax implications for both the donor and beneficiary, and have a long-term impact on a family's income, they should under no circumstances be entered into without the professional assistance of a tax attorney or accountant.

THINKING ABOUT OTHER RESOURCES

Financial aid is available to provide additional funds to meet any deficit between your contributions and those of your parents/or spouse and the school budget. Such deficits are referred to as your financial need. Most of these funds are awarded through the financial aid office at the medical school which you attend. However, financial aid is also awarded directly from the federal government, state government and private sources. You should do all you can to locate every source of financial assistance available to you and then evaluate each one carefully to determine whether it is suitable to your situation.

Institutional Assistance

It is advisable to consult both your school's financial aid office and scholarship and loan guides for information. The funds that financial aid offices have access to can often be awarded only to students who demonstrate financial need. These funds may include National Direct Student Loans, Health Professions Student Loans, College Work-Study or other employment, and funds from private endowments disbursed through the colleges. In addition to your financial need, financial aid officers must consider the availability of funds before awarding you financial assistance. Therefore, aid awards sometimes fall slightly short of meeting your total financial need.

It is important that you contact the financial aid office as early as possible to learn the policies of the institution. Because of the time required to apply for aid, it is recommended that you complete and file all financial aid forms even before you are accepted to the medical school, unless the school specifically requests that you delay such application until you are accepted. Your completed financial aid application will permit the financial aid office to respond promptly with information about your aid eligibility after you are accepted. All necessary forms are available from schools' Offices of Financial Aid.

Typically, students are required to supply the following forms:

1. A completed application form requesting basic information.
2. A completed need analysis form. Schools use need analysis forms provided by the national service they use. The major services are the American College Testing Service (ACT), College Scholarship Service (CSS), and the Graduate and Professional School Financial Aid Service (GAPSFAS). Confirm with your school the form and information required. Regardless of your dependency status, most schools will require parental information in addition to information from you and your spouse.
3. Signed copies of your most recent federal income tax return and those of your parents and spouse, again, regardless of dependency status.
4. Completed financial aid transcripts from all colleges you have previously attended irrespective of whether you received financial aid from the institution.

Private Funding - Loans and Scholarships

Most financial aid offices maintain lists of private loans and scholarships for which students may be eligible. Listings may also be obtained from *Medical School Admission Requirements* [4] and financial assistance guides available in libraries. Private loans, grants, and scholarships are offered by numerous organizations and each carries its own unique requirements, awards, and terms. Selection criteria for these awards may be such factors as ethnic origin, parents' occupations, religion, or geographic location. You can request applications and selection criteria by writing to the organization offering the award. It is very important to fill out all forms completely and to meet all stated deadlines. Many deadlines are six to nine months before the scholarships are awarded, which makes early inquiry essential.

Private enterprise has also gotten into the financial aid game by developing scholarship search services, which claim to be "easy ways to find money." Most of the services function by charging a fee to perform a computer search which will attempt to match your background and family characteristics with the selection criteria of scholarships or other types of assistance. Characteristics include, but are not limited to, ethnic and national origin, religion, fraternal affiliations, parents' employers, field of employment, grades, course of study, and geographic location. The services do not guarantee that you will receive money, only that they will provide names of sources so that you can then contact each source and request additional information and an application.

Before considering this option, you should know that a nationally recognized consumer finance magazine recently evaluated these services by submitting a fictitious student for matching.[5] Many of the scholarships that were found by the services were obvious, inappropriate, or

obsolete. A little time and research on your part would net at least the same and possibly better results at no cost.

Scholarships with a Service Commitment

In addition to scholarships and repayable loan programs, there are service payback programs available to medical students. Service scholarships are available through branches of the military, the National Health Service Corps, some state governments, and some communities. Most of the service scholarships are similar, paying part or all of the educational and living expenses in return for practice in a specified geographic area or with a branch of the military for a specified period of time.

Obviously, the greatest advantage made possible by service commitment programs is that they enable a student to complete medical school with little or no student loan debt. However, while there are no direct financial obligations, there are other obligations to consider, and before you sign a contract with any service-obligated program you will want to know:

1. What educational expenses will be paid?
2. What living expenses will be paid?
3. Is there a service requirement during the school year and/or summers?
4. How many years of service are required to pay back the loan?
5. Will the benefits or requirements of the program change from year to year?
6. Will you have a choice of residency programs and location?
7. Might you be required to postpone residency training following your year of internship in order to begin your service commitment? How are such decisions made?
8. What salary might you expect as a first-year resident fulfilling your service commitment?
9. Will you have the choice of location for the service commitment?.
10. What happens if your medical career plans change or if you withdraw completely from medical school?

Loans

As more students accumulate substantial educational debts, financial aid officers are becoming increasingly concerned about the need to rely exclusively on loans as a means to finance medical school. An attitude once prevalent among students of "get all you can and worry about it later" is rapidly disappearing, and students are becoming cautious as they realize the extent of their debt and the resulting monthly loan payments. Loan payments will reduce the amount of money available to you during the critical years of your residency and early career. The best advice to you as a prospective or current medical student is to borrow the absolute minimum amount necessary. On the other hand, *responsible* borrowing is appropriate and will most likely be necessary to finance your medical education. It is important to keep in mind the fact that education loans—whether from a private or governmental source—are a form of credit extended to you to assist you in meeting the high cost of the education you need to pursue the career you have chosen. Loans are not an entitlement, something to which you have a right. Loans are a choice, perhaps a necessary one, but a choice nonetheless, to enable you to do what you have chosen to do.

Various loan programs are available to you as a medical student, each with its own qualifications and stipulations. Loans are made through financial aid offices, commercial lenders, state government agencies, and private foundations. Before you apply for a loan, it is important to have certain information. The following list should be helpful:

1. The maximum amount you can borrow per academic year as well as the maximum aggregate amount;
2. The interest rate;

3. Whether the interest is deferred until after graduation, subsidized, or payable while you are in school;
4. Whether the interest, if not deferred, is payable monthly, quarterly or annually;
5. If you can capitalize the interest;
6. Whether you can repay the loan at any time without penalty;
7. If you can defer repayment of the principal until after residency training;
8. The maturity date, that is, the date upon which the promissory note becomes due and payable;
9. The grace period;
10. The number of years allowed for repayment;
11. Whether the loan can be forgiven for specific types of practice in a physician shortage area or other locations;
12. What the minimum monthly payment will be during the repayment of the loan.

All loan contracts between lenders and borrowers are recorded locally or federally as standing legal obligations until terminated through repayment. When you negotiate an education loan, you are entitled to exact copies of any agreements you sign and should be sure to get a copy of the disclosure statement and the promissory note. You should also remember that your promissory note requires that you inform your lender of any change in your student status, that is, decreasing your course load below the acceptable level stipulated in your note, transferring to a different medical school or withdrawing completely from medical school, or changing your name, address and/or social security number. Because your financial decisions are so important and have such major implications for your years of residency and first years as a practicing physician, it is necessary to reiterate the caution that you should restrict your borrowing to those loan amounts that are absolutely necessary to continue your medical education.

Part-Time Employment

Another alternative for financing your medical education, one often overlooked because it appears impractical at first, is part-time employment or the College Work-Study Program. Some students take a dim view of employment as a viable means of financing their education, but, for many of the growing number of students who have chosen to work, part-time employment means the difference between eating and going hungry, between constant worries about money and having enough to live without that anxiety. When you are deciding whether or not to work, first determine if your academic situation is secure enough to permit you to spend time away from your studies. It is also important to consider your school's policy about students having part-time jobs. Good time management might free a few hours each week to work. Would you really be spending all your hours outside of scheduled class time studying? Or could a part-time job provide both needed income and a change of pace? Creativity may be necessary on your part to find a job that meets your needs. Where flexibility is important, some students find it helpful to work at "odd jobs" during their free time. Job-sharing might be a possibility, one that would offer flexibility in hours. Jobs can provide a break from your studies as well as added income, and extra income could reduce your need for loan funds as well as some or all of the stress of financial burdens.

KEEPING FINANCIAL AID RECORDS

It is vital to keep accurate records of any type of financial assistance you receive, whether through your financial aid office, the federal or a state government, a bank, or a private organization, as these transactions will affect your present and future personal finances. Keep the following records:

1. Your federal income tax returns;
2. Your parents' federal income tax returns;
3. Copies of your completed need analysis forms;
4. All offers of financial aid for attendance at an institution;
5. All financial aid award letters;
6. All promissory notes;
7. All correspondence with your financial aid officer.

A simple yet effective method of organizing these forms is to create a folder for each academic year and file all forms together according to year. But, regardless of how you organize them, do keep complete and accurate files that include copies of every form you submit and those which you receive from your school, bank, or other institution.

This section has described various sources of funding available to you if you are looking for ways to augment your own financial resources. It has dealt with existing and fairly commonly known resources. However, since medical students are talented, intelligent and creative persons, who are usually resourceful, you should be looking for and/or creating your own personal sources of assistance. You should also be doing creative thinking about funding avenues that, while they may not apply to you as an individual, could be pursued by your medical school. Don't assume that medical school personnel know everything there is to know about extending and augmenting fiscal resources. You may become aware of a source which the school would be glad to pursue if you were to make it known to them.

REFERENCES

1. Association of American Medical Colleges. Memoranda 83-54, 82-43, 81-53, 80-36, 79-43, 78-44. Washington, D.C.
2. Ibid.
3. *Study of How Health Professions Students Finance their Education. (DHHS[HRA]80-50).* U.S. Department of Health and Human Services: Washington, D.C., 1980.
4. *1985–86 Medical School Admission Requirements.* Washington, D.C.: Association of American Medical Colleges, in press.
5. Paying for College With Less Help From Uncle Sam. *Changing Times.* 17(10):61–70, October 1982.

II. PLANNING AND BUDGETING

While your student budget as established by the financial aid office at your school may seem low by some standards, it is probably not unrealistic. In order to work within the boundaries set by the school you will have to make some very specific life-style choices. Planning and budgeting, examined in this chapter, will assist you in both making and implementing these choices. This process can establish good money management habits that will endure through subsequent years.

Budgeting as a student is both easier and more difficult than as someone receiving a regular paycheck. It is easier because you pay flat fees for tuition and room and board, and have to deal with personal expenses only within the context of financial aid offices' sample budgets; it is more difficult because budgeting based on funds from loans is complicated by the fact that banks often make yearly lump-sum student loan payments, although some do issue checks quarterly. Faced with a large amount of cash-on-hand, you may find it difficult to keep in mind that a loan of several thousand dollars must cover expenses for nine or twelve months. Prudent money management will insure that you do not use all of your loan money within the first few months of receiving it. Two important strategies for dealing with quarterly or annual lump-sum payments are:

1. Deposit the financial aid check *as soon as you receive it,* preferably *in an interest-bearing account;*
2. Investigate the possibility of investing it in an account or fund which pays a higher rate of interest than a checking or savings account.

For example, since you will not need all of the funds provided by your annual or quarterly check immediately and some of them for several months, put them to work for you in a savings plan with a minimum investment period that coincides with your schedule, such as 60 or 90 days, and keep reinvesting them until you need them. In this way they can provide you with an additional source of income.

PLANNING

It is important to realize that each student receiving financial aid is given a specific dollar budget based on factors such as year in school, marital status, number of dependents, and housing costs. Financial aid plus other resources, which include contributions from you and your family, cannot exceed the assigned budget amount. If you are receiving need-based financial aid and for some reason obtain extra income from work, outside loans, scholarships, or other sources not originally included in the eligibility analysis, your financial aid must be adjusted accordingly to maintain your previously determined yearly budget amount.

You must work within limited financial resources. Therefore, as soon you know the dollar amount of your resources for an academic year, you should take time to plot your annual budget. It is crucial to plan your budget before you make hasty spending decisions that put you into debt. Also, if in doing your budget it seems that your financial aid offer is unreasonably low, you can confer with the financial aid officer to determine if all factors were appropriately considered.

BUDGETING

A positive attitude will help to make budgeting less painful. Try to view the budget as a means of insuring that you can meet all of your obligations with your available resources rather than as restricting your lifestyle.

Before you attempt the actual mechanics of budgeting, analyze your cash flow situation. Is your income on a quarterly or yearly basis or is money coming into your household weekly or monthly? Obviously, your planning will vary according to your cash flow.

For example, if you receive income only once each year, you will need to establish your expenses for the whole year and disburse that income accordingly each month. If you receive a monthly income, you will still have to plan your expenses and set up a system to allocate this income to meet them. In both cases you must know what your expenses are and how often they occur. Don't try to squeeze your particular expenditures and life-style into a budget that someone else has designed. Because each person and household is unique, it makes sense that each budget is unique also, and must consider individual needs, values, wants, and goals. The budgets established by the financial aid office include the maximum total a student may spend in order to remain eligible for financial aid as well as amounts for individual components such as room and board and personal expenses. You, however, may choose to spend more or less on each component as long as you remain within the established total.

DEVELOPING COMFORTABLE FINANCIAL GOALS

Goals are a very important part of budgeting and can be separated into short and long-term. During your years as a student, your goals are to save enough money to pay for tuition, books and/or housing. After graduation, your goals may take the form of paying for a car, furniture or vacation, or establishing a college fund for your children. In any case, when you project a date by which you need to meet a goal, you can plan for it in your present budget. Many people set a yearly goal of having enough money set aside by Christmas for shopping purposes. To accomplish this, they begin a Christmas fund or savings account and contribute to it regularly. This same idea might also be applied to other major expenses.

BECOMING FAMILIAR WITH THE MECHANICS OF A BUDGET

Next come the actual mechanics of budgeting. To insure success keep your budget as simple as possible. The easier a budget is to deal with, the more apt you will be to stick to it. To develop a budget, start by doing the following:

1. List all of your sources of income.
2. List all of your fixed expenses. Fixed expenses are monthly or yearly expenses that are unavoidable because you have already committed yourself to them. They are usually unchanging in their amounts.
3. List all of your variable or day-to-day expenses. Variable expenses are those that occur in different amounts, and may not occur with regularity. An easy method for estimating variable expenses is to keep track of every penny that you spend for the next two weeks. By doing this you will see where your spending priorities lie and will be able to allocate your funds accordingly. You will also be very surprised at how quickly small incidental expenses add up.

The Budget Worksheet at the end of this section should get you started although you will probably revise it to fit your situation. In looking at it, you will notice that a savings account is included under the fixed expenses column. Not only should you be saving for large, planned expenses (long-term goals), but you should also set aside an amount every pay period for large unanticipated expenses. Savings should not be considered just an option if there is any left-over money (all too often there is none), but should be a planned expense and treated just like any other monthly bill. As a student you may find that saving any money is simply impossible. However, you should be aware of this very important aspect of the budgeting process and practice it as soon as you begin receiving a regular salary such as in the summer months when you are working rather than going to school.

List your income, fixed expenses and variable expenses on the budget worksheet. Subtract the total of your expenses from your income. The difference, that is money left over, is called

discretionary income. Many people choose to add this to their savings; others use it to buy unplanned extras. In any event some discretionary income should be reserved for unplanned expenses. If you show a negative balance, you will have to re-evaluate your expenses. In most cases, variable expenses are the easiest to modify. If reducing expenses is not possible you may have to eliminate some that you have considered fixed such as purchasing and/or maintaining a car.

Sylvia Porter, a well known financial advisor, has written something that you may wish to keep in mind in developing your spending plan.[1] She maintains that ther are three expense categories people usually forget when planning a budget, categories that usually lead to the collapse of a financial plan if not considered:

Nibblers - little things which you take for granted that eat away at your money (laundry, haircuts, snacks, newspapers).

Bouncers - expenses which occur once or twice a year and are easy to overlook (insurance premiums, federal, state and local taxes, personal property taxes, student loan payments).

Sluggers - emergency unplanned expenses that are disastrous if you have no savings account to fall back on (medical expenses, car expenses, appliance replacement, emergency travel).

If you follow the suggested budgeting procedure you can be prepared for these three. Nibblers can be accounted for by carefully writing down all of your expenses during a two-week period; knowing what they are makes it possible either to provide for them in your budget or to decide that they are unnecessary. Bouncers are managed by putting money aside each month in anticipation of large annual or semi-annual expenses. Sluggers are more difficult to include in your budgeting process because dealing with them requires that you maintain a savings account. If the expenses incurred by a "slugger" are extremely high, your savings may not be sufficient to pay them in full, but may serve as a down payment or collateral for credit or a loan to cover them.

REFERENCES

1. Porter, Sylvia F. *Sylvia Porter's New Money Book For The 80's.* New York: Doubleday, 1979.

BUDGET WORKSHEET

INCOME List all *steady* sources of income.

Financial Aid	_____
Salary (after deductions)	_____
Spouse's Salary (after deductions)	_____
Investment Income	_____
Government Checks	_____
Gifts	_____
Alimony/Child Support	_____
Other	_____
TOTAL MONTHLY INCOME	_____

FIXED EXPENSES These are monthly or yearly expenses that are usually unavoidable and typically unchanging in their amounts. There is no clear-cut distinction between fixed and variable expenses. It is up to the individual. You may or may not have all of these expenses.

	YEARLY	MONTHLY
Regular Savings	_____	_____
Rent/Mortgage Payments	_____	_____
Utilities*	_____	_____
Telephone	_____	_____
Taxes (federal, state, local)	_____	_____
Vehicle Payments	_____	_____
Charge Card Payments	_____	_____
Personal Loans	_____	_____
Education Loans	_____	_____
Life Insurance	_____	_____
Health Insurance	_____	_____
Home/Renter Insurance	_____	_____
Auto Insurance	_____	_____
Auto Registration/Taxes	_____	_____
Professional Fees/Dues	_____	_____
Accountant Services	_____	_____
Tuition and Fees	_____	_____
Books and Supplies	_____	_____
Child Care	_____	_____
Other:_____	_____	_____
TOTAL FIXED EXPENSES	_____	_____

*gas, electricity, water, sewer, garbage

VARIABLE OR FLEXIBLE EXPENSES

After determining your fixed expenses, list your variable expenses. When trying to figure out variable expenses, you will be most successful if you *write down all of your expenditures* for two weeks. Be as realistic as possible. You will be surprised to see where your money goes and how it adds up.

Groceries	_____
Meals & Snacks Away From Home	_____
Household Supplies	_____
Clothes	_____
Laundry/Dry Cleaning	_____
Gas, Oil & Auto Maintenance	_____
Parking & Tolls	_____
Medical/Dental/Medicine	_____
Hobbies/Recreation/Entertainment	_____
Travel/Vacation	_____
Pets, Supplies, Food, Vet	_____
Sports	_____
Records & Books	_____
Child Care	_____
Health and Beauty Aids	_____
Haircuts	_____
Cigarettes, Tobacco, Alcohol	_____
Postage	_____
Subscriptions	_____
Cable TV	_____
Gifts	_____
Charity/Contributions	_____
Other:_____	_____
Other:_____	_____
TOTAL VARIABLE EXPENSES	_____
plus	
TOTAL FIXED EXPENSES +	_____
equals	
TOTAL MONTHLY EXPENSES	_____

TOTAL INCOME	_____
minus	
TOTAL EXPENSES –	_____
equals	
TOTAL DISCRETIONARY INCOME	_____

III. MANAGING YOUR DEBTS

KEEPING RECORDS

Because debts have such long-term implications for your financial future, give special attention to the management of your personal and educational debts from the outset. Keep accurate records of all debts you incur for your education, together with information concerning loan terms such as deferments and monthly payments. If you have not kept records during your undergraduate years, send a letter to your school's financial aid office requesting a copy of all financial aid you received. You can then use the information you receive to begin accurate bookkeeping.

The Sample Debt Record Chart in Table Three indicates the information that you must have on hand. This chart, which assumes graduation from medical school in June 1988, serves not only as a record and an accounting of your debt, but also as a vehicle for budgeting. Promissory notes and award letters should provide you with all the information you need to complete it.

TABLE THREE
SAMPLE DEBT RECORD CHART

Name of Loan	Year of Debt	Principal	Rate of Interest	Date of Initial Payment After Deferment	Billing Cycle
GSL* - cash repayable	Undergraduate Debt	4,300	8%	1/91	Monthly
	1st Year Med.Scl.	5,000	8%	1/91	Monthly
	2nd Year	5,000	8%	1/91	Monthly
	3rd Year	5,000	8%	1/91	Monthly
	4th Year	5,000	8%	1/91	Monthly
	TOTAL	24,300			
HPSL#	3rd Year	500	9%	7/92	Monthly
	4th Year	550	9%	7/92	Monthly
	TOTAL	1,050			
School Loan	1st Year	1,050	9%	5/91	Monthly
	2nd Year	1,050	9%	5/91	Monthly
	3rd Year	1,050	9%	5/91	Monthly
	TOTAL	3,150			
Private Foundation Loan	3rd Year	450	5%	1/90	Semi-Annually
	4th Year	400	5%	1/90	Semi-Annually
	TOTAL	850			

*GSL-Guaranteed Student Loan
#HPSL-Health Professions Student Loan

A Debt Record Worksheet follows so that you can develop your own debt record. After completing your debt record chart, enter on your personal calendar the dates by which you must submit deferment forms to prevent your loan(s) from entering repayment status. The importance of your timely submission of these forms cannot be over-emphasized.

RECORDING YOUR LOANS: DEBT RECORD WORKSHEET

UNDERGRADUATE DEBT: NAME OF LOAN	YEAR OF DEBT	PRINCIPAL	RATE OF INTEREST	DATE OF INITIAL PAYMENT AFTER DEFERMENT	BILLING CYCLE
MEDICAL SCHOOL DEBT:					
Name of Loan					
	1st Year				
	2nd Year				
	3rd Year				
	4th Year				
	TOTAL				
	1st Year				
	2nd Year				
	3rd Year				
	4th Year				
	TOTAL				
	1st Year				
	2nd Year				
	3rd Year				
	4th Year				
	TOTAL				
	1st Year				
	2nd Year				
	3rd Year				
	4th Year				
	TOTAL				

ESTIMATING MONTHLY LOAN PAYMENTS

You can estimate monthly loan payments very easily by using the following factor chart (Table Four). This represents the monthly amount payable for a principal of $1,000 for payout of 10, 15, and 20 years. To determine the monthly payment of a loan for more than $1,000, simply divide the actual principal by 1000 and multiply the answer by the factor in the chart. For example, if the principal is $24,000 at 7% simple interest, payable for 10 years, the monthly payments will be $278.88.

$$\frac{\text{Principal Owed}}{\$1000} \times \text{loan factor} = \text{estimated monthly payment}$$

$$\frac{24{,}000}{1000} \times 11.62 = \$278.88 \text{ per month}$$

TABLE FOUR
FACTORS FOR ESTIMATING MONTHLY LOAN PAYMENTS ON LOAN INCREMENTS OF $1000 AT SIMPLE INTEREST

Loan Interest Rate	10 Years	15 Years	20 Years
3%	9.66	6.91	5.55
4%	10.13	7.40	6.06
5%	10.62	7.92	6.61
6%	11.10	8.44	7.16
7%	11.62	8.99	7.75
8%	12.14	9.56	8.37
9%	12.67	10.14	9.00
10%	13.22	10.75	9.65
11%	13.78	11.37	10.32
12%	14.35	12.00	11.01
13%	14.93	12.65	11.72
14%	15.53	13.32	12.44
15%	16.13	14.00	13.17
16%	16.75	14.69	13.91
17%	17.38	15.39	14.67
18%	18.02	16.10	15.43
19%	18.67	16.83	16.21
20%	19.33	17.56	16.99
21%	19.99	18.31	17.78

You can apply the same procedure to each loan with simple interest. When you have completed calculating the estimated monthly payments for each loan, develop a new chart, like the sample in Table Five showing all monthly payments according to their due dates. You should note that some loans such as the Federal HEAL loan, include compound rather than simple interest.

TABLE FIVE
SAMPLE MONTHLY PAYMENT CHART*

Loan	Beginning Date of Payment			
	1/90	1/91	5/91	7/92
GSL ($24,300 @ 8%)	—	203.39	$203.39	$203.39
HPSL ($1050 @ 9%)	—	—	—	$ 9.45
School Loan ($3150 @ 9%)	—	—	$ 28.35	$ 28.35
Private Foundation Loan ($850 @ 5%)	$ 5.62	$ 5.62	$ 5.62	$ 5.62
TOTAL MONTHLY PAYMENTS	$ 5.62	$209.01	$237.36	$246.81

*Based on 20-year Repayment Schedule and calculated at simple interest.

If you plot your monthly debt payments on such a chart, your loans will take on new meaning and significance for you. Rather than "easy money" while going to school, they will become debts that you will have to meet out of your future income at the time of repayment.

As illustrated, you can have some loan repayments deferred until the end of residency training, but you will have to begin repaying others just months after you graduate from medical school. Some can be deferred for only a stated number of years and you will face repayment at some point during your residency. In other instances, while you can have repayment of the principal deferred, you will be required to pay interest. Payment on the principal is then added after a specific number of years. Although this reduces your monthly debt payment initially, after a few years your payments do increase and it is likely that these increased payments will occur during your residency. Some loans may require either that interest be paid or be accrued and compounded from the time the loan is taken out. Thus, even while you are in school, you may be paying interest for this type of loan. Furthermore, some interest payments do not remain constant, but are linked to an economic barometer such as the 91-Day Treasury Bill interest rate which is adjusted every quarter. As you may have inferred from these comments, the importance of knowing both the maximum length and the terms of deferment for the loans you assume, and of filing the forms necessary to request such deferment by the stated deadlines, cannot be overemphasized.

DETERMINING DEBT LEVELS YOU CAN MANAGE

There is growing concern about the debt levels of medical school graduates and the implication of medical school financial indebtedness for future life-style, particularly during residency, but also in later years. Financial aid officers, student affairs administrators, representatives of government and the banking community, and students themselves are seeking answers to the question, "What is a tolerable debt level for a medical school graduate?" Many students borrow heavily to pay for their medical education. Stipends during residency, the period when most loans enter repayment, probably in the years ahead will not even keep pace with inflation if the trend of recent years continues. Therefore, the prospect of major financial problems during that period is highly likely. There is no real consensus about maximum debt levels for a physician in practice because of the income variations among practitioners; however, there is increasing interest in calculating levels of tolerable or manageable debt.

Using data and conclusions from two earlier reports, a 1978 study suggested the following as manageable or tolerable levels of educational debt:

1. One that does not exceed 6 percent of a person's gross (before-tax), or 7.5 percent of the net or adjusted gross (after taxes and other deductions), income during the life of the loan.[1]
2. One that does not exceed 15 percent of a person's net starting salary.[2]

Conclusions of a more recent study are not appreciably different. A 1984 study, which defined manageable loan repayments as a proportion of borrowers' projected incomes, estimated that this proportion ranged from 5.75 to 9.0 percent of adjusted gross (after-tax) income, depending upon the relative Bureau of Labor Statistics (BLS) budget standard. For a 1984 medical school graduate it was estimated that a total manageable student loan principal was $30,500 if based on a 10-year equal monthly installment repayment plan and $80,000 if based on a 15-year graduated repayment option. For the medical school entering class of 1985 it estimated a total manageable student loan principal of $37,000 based on a 10-year monthly installment repayment plan and of $100,000 based on a 15-year graduated repayment option. Under the graduated repayment option plans, payments would increase annually, in step with earnings. These figures assume a 9.0 percent simple annual interest rate; deferment of payments for the in-school period, a six-month grace period, and during residency training; a 5 percent future annual inflation rate; and repayment beginning during the first year of practice.

In addition, this study suggested that medical students will have the ability to repay student loans under graduated repayment plans once they are practicing physicians, but that their comparatively modest incomes during residency training make it difficult for them to make even interest-only payments on their student loans, and that, if payments could be deferred until the first year of practice, the estimated manageable student loan would be about $37,000 even under a 10-year equal monthly installment plan.[3] Reported stipend levels for residents as given in Table Six suggest that they will be unable to assume even minimal repayment levels during that period.[4]

TABLE SIX
MEAN HOUSESTAFF STIPENDS NATIONWIDE, 1983–84

	1983–1984	Percent Increase from 1982–1983
1st Post-MD Year	$19,868	4.8%
2nd Post-MD Year	21,231	4.5%
3rd Post-MD Year	22,439	4.4
4th Post-MD Year	23,630	4.4
5th Post-MD Year	24,734	4.3
6th Post-MD Year	25,974	4.1

Furthermore, the situation does not look any more optimistic for the later years of residency. Figures for mean 1983–84 housestaff stipends and their implications for loan repayment, as shown in Table Seven, present a fairly negative picture of residents' prospects for beginning to repay their educational debt.[5]

TABLE SEVEN
DEBT PAYMENTS AS A PERCENTAGE OF
1983–84 MEAN HOUSESTAFF STIPENDS

Year of Residency	Mean Stipend in 1983	Monthly/Yearly Payment at 6% of Before-Tax Stipend
1st Year	$19,868	$ 99/1192
2nd Year	21,231	106/1274
3rd Year	22,439	112/1346
4th Year	23,630	118/1418
5th Year	24,734	124/1484
6th Year	25,974	130/1558

The Sample Monthly Payment Chart in the preceding section shows that a person entering medical school in fall of 1984, who will be in the third year of residency in 5/91, will have a monthly educational debt payment of $237.36, with annual payments of $2,848. However, if you figure the suggested 6 percent of before-tax income for loan repayment, and, for the sake of this example, assume an annual rate of increase in third-year stipend levels of 4.4% (the rate of increase from 1982–83 to 1983–84), you must conclude that this person could afford no more than $152 monthly or $1,820 annually, based on a stipend of $30,332, without other budget compromises. Making monthly payments of $237 would create an annual shortfall of $1,028. Moreover, since this example uses averages, the possibility of a lower stipend must be taken into consideration because there are geographic regions where stipend levels are lower than the national average presented here, and consequently, residents who will be able to afford even less. The resident is this example would require a gross income of $47,472 to afford monthly loan payments of $237 comfortably. Finally, it is important to note that while residents' stipend

levels attempt to keep pace with inflation, in some instances they do not and, therefore, your situation could be even more serious than the one illustrated.

While no formula can predict absolutely what manageable educational debt for a physician might be, it is crucial that you make decisions about your use of loans and the level of indebtedness you are able and willing to assume by carefully forecasting your income and expenses, and by doing so not only when you choose a medical school, but also at least every year thereafter. There is further discussion of debt repayment and its implications for the years of residency in Chapter IV.

REFERENCES

1. Horch, D.H. *Estimating Manageable Educational Loan Limits for Graduate and Professional Students.* Princeton: Educational Testing Service, 1978.
2. Ibid.
3. *Student Loan Limits: Estimated Manageable Student Loan Borrowing Limits for the Class Graduating in 1984 and the Class Entering in 1985.* Princeton: Educational Testing Service, 1984.
4. COTH Survey of Housestaff Stipends, Benefits, and Funding 1983. Washington, D.C.: Association of American Medical Colleges, Department of Teaching Hospitals, October 1983.
5. Ibid.

IV. SURVIVING THE FINANCIAL STRAIN OF RESIDENCY

The completion of medical school is a milestone in the career of any physician. Not only does it end four intensive years of study, it also promises the beginning of a new life-style during residency training. Financially speaking, residents join the ranks of salaried wage-earners and most no longer require financial assistance in the form of loans. At this point they must come to terms with all of the traditional financial concerns of the salaried wage-earner in addition to those that result from the expense of years of medical school and consequent delayed entry into the world of work. This chapter will examine the financial problems that typically face today's residents.

It is important to note at the outset that residents' financial situations vary so widely that it is possible to discuss the financial issues of this period only in very general terms. Considering both the gravity and the scope of their financial concerns, residents are well advised to discuss their financial status with a tax advisor at the beginning of this period. A knowledgeable tax counselor can give advice about savings, investments and long-range financial planning, as well as help with management of loans and preparation of tax forms. To derive maximum benefit from such a session it is necessary to have available the records mentioned in Chapter One. Included among the documents that might be needed are: promissory notes, disclosure statements and other documents related to education loans, income tax returns for the previous four or five years, a copy of the budget worksheet to illustrate financial commitments and variable expenses, and any other forms needed to provided an accurate and comprehensive financial picture. While this is crucial at the end of the residency period, it could also prove valuable at its beginning.

HAVING INCOME

The residency has been and is today considered an extension of medical school. In fact, many consider the residency years to be the most formative years of medical education. Because of this you, as a resident, are still considered a student and the hospital, therefore, views your salary as a stipend. However, the Internal Revenue Service considers your resident stipend taxable income just as it does any other salary.

Housestaff stipends have always had the reputation of being notoriously low. Even though in recent years stipend levels have risen 6–8 percent a year, the 1983–84 average first-year housestaff stipend was still only $19,868, while state-owned hospitals offered an average stipend of only $18,547. Similar stipend levels and comparable increases in the future may cause a financial situation in which your standard of living is no higher than it was during your years as a student.

DECIDING IF A SECOND INCOME WILL MAKE A DIFFERENCE

Many couples assume that if the resident's spouse contributes a second salary this will augment their financial resources significantly. However, as mentioned in Chapter One, related expenses such as transportation, clothing, and child care can consume as much as 70 percent of the second income, and there are tax implications to being a two-income family. It is important not to count on an entire second salary as an added financial resource but to budget with the probable added expenses in mind, and to make the decision about your spouse remaining in or entering the work force during all or part of the residency period on the basis of the many other considerations involved.

Another source of additional income is a second job or "moonlighting". Many residents moonlight, working in hospitals or performing insurance physicals in their too-few hours off to help ease both the burden of debt and the stress that often accompanies it. Although this does provide extra income, it also can create problems, one of which is reduction of personal and

family time. Moonlighting also can have adverse effects on your day-to-day performance in your residency, thus causing more stress both at home and at work. Some hospitals restrict or prohibit moonlighting and it is important for you to be aware of such policies. In addition, because moonlighting is considered employment by the IRS, you will be liable for taxes on the income. If you do moonlight, you should have a tax accountant review your tax situation since it is possible that you will have to submit quarterly tax forms and payments.

SPENDING YOUR HARD-EARNED DOLLARS

Regardless of whether you are living on one or two incomes, and/or moonlighting, one of your gravest financial concerns during residency will be your student loan debt. While your peers have been among the wage-earning work force for the past four years, you have not only not been earning a salary, but have been borrowing money—in some cases large sums of money—to complete your education. While some of your loans can be deferred until the end of residency, others will come due during this period. In most cases, having to make loan payments during residency can create grave financial hardship. This is discussed at length in the section "Repaying Your Education Loans".

Changes you desire to make in your lifestyle can heavily influence your financial decisions as a resident. As many residents do, you have probably deferred for years many of the material pleasures that your friends from college, who chose other careers, by now take for granted. Your lifestyle as a student may have caused you to postpone marriage, a family, and/or purchases such as a home, car, and furnishings, and to deny yourself the social life enjoyed by your peers. Beginning your residency, particularly receiving a regular paycheck, can be a source of temptation to do too much too quickly.

Some residents, who have become accustomed to their parents' standard of living while at home, now try to live by the same standards, forgetting that it may have taken their parents 20 or 30 years to establish and comfortably afford this life-style. New physicians may also try to live up to their perceived image of "M.D.", and in doing so, succumb to the temptation to purchase items that tell the world they are doctors. To attain these standards quickly, they use consumer credit to supplement a paycheck that is inadequate for such expenditures.

For these and other reasons it is easy for residents to accumulate excessive levels of consumer debt, which, added to student loan debt and a possible mortgage, can create a seemingly insurmountable financial burden.

DEALING WITH REAL INCOME

The ideal way to combat an excessive debt burden is to arrange your personal finances in such a way as to forestall it. First you should analyze your paycheck. For some, residency income is the first employment income ever received, and the size and number of deductions may come as a rude surprise. Your total stipend will always be reduced by deductions such as income tax and social security payments.

Federal income tax is a major withholding. The amount withheld varies because it is based on the gross salary and the number of exemptions claimed on the W-4 form. While it is important for you to claim the exemptions to which you are entitled, do not have more money withheld than is necessary, assuming that you are providing yourself with a forced savings account. This is a very expensive way to save since you earn no interest on any money withheld by the government. Even in a savings account paying minimal interest your money will be working for you. State and sometimes local income taxes will also be withheld, and these too are figured as a percentage of your gross stipend and a function of your claimed exemptions.

Social Security (FICA) is another significant withholding each pay period. Currently 6.7 percent of a salary is paid into social security, a rate that will remain constant through 1984. In 1985 the rate will rise to 7.05 percent and in 1986 to 7.15 percent. Note, however, that Congress can change this rate at any time.

Withholdings other than taxes will also affect your net paycheck. These may include insurance, parking fees, contributions to a mandatory retirement plan, and possibly charitable contributions, and will vary with each individual and employer. The bottom line, however, is that you cannot use your gross stipend to develop a budget.

SAMPLE PAYROLL STATEMENT

```
                                                        FR12801V
            ALTCMATIC PAYRCLL DEPCSIT
  NET AMCLNT DEPCSITEC    1,024.76

5033 101
                                                  31

REGULAR PAY    DIFF PAY CVERTIME PAY  TCTAL GRCSS
   1,400.33         .CC          .00    1,40C.33

FEC  176.C5   FICA  93.83   GA  58.18  TR      .CC
FCS   24.55 LIFE  15.0E CTHER  3.9C ANNLITY    .CO
PARKING    .00       ANNUAL FUND    .OC

CD  AMCLNT  CD  AMCLNT  CC  AMCLNT  CC  AMCUNT
      .OC       .CO       .OC       .CO
      .CC       .00       .00       .CO
```

This sample payroll statement is the actual statement of a first-year resident. The contract stipend is $16,800, an amount which should allow for a modest yet comfortable life style. But observe what happens when taxes and other payments are withheld! The monthly gross amount is quickly reduced by almost $400, from $1,400 to $1,024 leaving a total of $12,300 for one year's living expenses. You can readily see the importance of careful and prudent financial planning and budgeting.

In the section on financial planning for medical school, the mechanics of budgeting were discussed from the perspective of a student entering medical school. At this point there is a need to do so again from your perspective as a housestaff physician with very different concerns and needs and with a regular income.

REPAYING YOUR EDUCATION LOANS

A major and immediate concern will be repaying your medical school education loans. As illustrated previously, this debt may be difficult to manage on what you can expect to earn as a resident physician. However, your situation is not hopeless! Some of your alternatives may be:

1. A deferment of repayment because as a resident you are considered to be a student;
2. A graduated payment plan with lower payments during residency and increased payments afterward;
3. A loan consolidation with an income-contingent repayment plan;

4. A "hardship" deferment, which postpones payment of the principal and/or the interest;
5. A renegotiated payment plan (your lender like most creditors would probably rather accept a reduced monthly payment than deal with a default, and may be willing to consider this an option);
6. A new loan at a lower rate, negotiated so that you can consolidate your loans yourself.

The first option listed, further deferment of your loan under student status, may be a possibility. Some hospitals regard residents as students and report them to the state as such; if this is so in your case you may be eligible for a student deferment. The housestaff coordinator at your hospital should be familiar with this issue.

Another way of dealing with an unmanageable repayment schedule might be loan consolidation, that is, consolidating or combining your separate loans into one loan and one payment and possibly also extending the repayment period. The Student Loan Marketing Association (Sallie Mae), a secondary loan market which purchases loans from the original lender, formerly offered a consolidation program for certain student loans, and Congress may grant Sallie Mae and/or state loan guarantee agencies this authority in the future. Although loan consolidation does provide a convenience for you as a borrower, it may do so at the expense of increased monthly payments, whereas an extended payment period will reduce your monthly payments, but increase the amount you repay. In either case, if it is available, you may find loan consolidation a viable option for balancing your budget during your residency years.

It may be possible for you to renegotiate or refinance your payment plan. If you elect to do so, you will have to contact the lender(s) and work out the specifics together. It is important not to ignore the debt, thereby forcing the lender to contact you. It is also essential that you receive prior approval from your lender before reducing your payments. Less likely, but still something you should keep in mind, is the possibility of negotiating an additional loan at a lower rate, using it to pay off your loans carrying higher rates of interest. The viability of this strategy depends upon the financial climate at the time you assume your loans and during their repayment. Given the fluctuations in interest rates that do occur, it may not be as unlikely as it appears.

REVISING YOUR GOALS

As your life style changes, your financial goals and priorities may change also. This is a time to analyze both your personal and family needs and wants and translate them into financial goals. You can then separate them into short-term (within one year), intermediate (one-three years) and long-term (more than three years) goals, and prioritize or rank them in the order of their importance.

SAVINGS GOALS

Goal	Time When Needed or Desired	Cost	Monthly Savings Required
nursery furniture	9 months	$500	$500 ÷ 9 = $55 per month
new washer/dryer	1 year	$700	$700 ÷ 12 = $58 per month
down-payment for car	2 years	$2,000	$2000 ÷ 24 = $83 month
vacation	3 years	$3,000	$3000 ÷ 36 = $83 per month

Some priorities will be dictated by circumstances, for example nursery furniture. Others will be established according to your needs and personal choices, such as money for a vacation. By setting and prioritizing goals, and by saving in order to achieve them, you can help your aspirations become realities.

RE-DEVELOPING YOUR BUDGET

Credit and loan payments will, at this point, become a part of your monthly fixed expenses, if they are not already. Loan payments are fixed expenses because they occur every month in approximately the same amount; and, while the total amount you pay each month on credit purchases is usually at your discretion, the minimum amount is established by your creditor and becomes a fixed expense. To calculate how much you should budget for non-educational loans and credit payments you may find a chart like the following helpful.

CREDIT AND LOAN PAYMENTS

Lender	Total Borrowed or Charged to Credit	Amount Still Owed	Minimum Monthly Payment	Estimated Time To Pay Off Debt
Total Borrowed	**Amount Still Owed**		**Total of Monthly Payments**	

Money you are putting aside to achieve your goals should be incorporated into your fixed expenses and placed in that column on your Budget Worksheet. Savings, too, should be placed in that column. A savings account provides a cushion for unplanned financial emergencies, and you should treat deposits to that account as you would any other fixed expense. Saving should not be a "sometimes" thing which you do only when you have "extra money". It should be a fixed expense each month or pay period. Financial advisors suggest that a minimum of 10–15% of your salary be placed in savings or invested.

As a resident you will find that you face large yearly expenses. The easiest way to deal with these is to plan for them throughout the year and not let them devastate your budget when they occur. If a $320 homeowners' insurance premium is due in May, it should be much easier for you to save $26.67 each month for a year than to come up with $320 in one lump sum when the premium is due.

As mentioned previously, budgets work best when used to plan for something, prospectively and proactively, not to bail out a bad situation after the fact. Your budget must take your priorities into consideration and should not restrain spending to the point that you forsake your overall budgeting goals. There will always be some expenditures for which you cannot plan or account each month, and you must allow for these in your budget.

CHOOSING A FINANCIAL INSTITUTION

After you allocate your funds on paper, put your plan into practice. Keep your system simple. While there is no one correct method for handling money, you must decide if it would be useful for you to have one bank, savings and loan, or credit union account for paying bills, one for accumulating savings to meet annual or semi-annual obligations, and one for regular savings; or one account for all three purposes. Whether you have one account or several is unimportant; what is extremely important is that your money is in interest-earning accounts at the highest rate of interest available, and that your system works for you.

Obviously then it is important to select with utmost care the financial institutions to whom you will entrust your money because this could provide another opportunity to increase your financial resources. Shop around for the best deal. *Don't pay a bank to use your money.* Monthly service charges for deposits are ways in which some banks, in effect, get you to do this. Because there are banks that do not levy such charges, compare costs and services before opening your account. You should also investigate alternatives such as credit unions. In addition to paying interest comparable to, and in many cases higher than, that paid by banks and savings and loan institutions, credit unions frequently are able to make loans to their members with less collateral and at a lower rate of interest than traditional lending institutions. They also offer checking accounts, often interest-bearing, and all other financial services. Because they do not usually advertise you may not be aware of those in your area, but it is important to look into them and determine if you are eligible for membership. When you do open an account, weigh the benefits of the financial institution in terms of:

1. Will your account earn interest? At what rate?
2. By what method is interest calculated?
3. Is there a minimum balance required for interest accrual?
4. Is there a penalty for withdrawal within an interest period?
5. Is there a minimum balance that must be maintained in order to receive free checking? If so, is interest being paid on this minimum?
6. Is this a liquid account for easy access to the money when it is needed?

Essentially, put your money where it will make money. Putting money in a non-interest-bearing account, when it could be in one that pays interest, is almost (but not quite) as bad as putting it under a mattress. However, keep in mind that the institution paying the highest rate of interest is not *per se* the best, because usually the higher the interest paid, the less liquid (accessible) the funds.

USING CREDIT JUDICIOUSLY

It is rare to find a person who has not used consumer credit at one time or another. Because credit can be a trap, it is essential to think about its disadvantages as well as its advantages. For every good and valid reason in favor of credit, there is usually a reason not to use it.

USE OF CREDIT

Positive Aspects	*Negative Aspects*
Allows purchase of high cost items without depleting savings	Frustrates planning and goal setting
Permits buying at sale prices	Makes it easy to spend beyond limits of income
Requires carrying less cash	Militates against having a savings cushion
Establishes a credit history	Usually adds to the purchase cost
May lower income tax, as interest payments can in some circumstances, be deducted	

In recent years, consumers have used credit-buying to help combat the effects of inflation. But, because credit begins where the paycheck ends, it has inherent in it serious potential problems such as encouragement of spending beyond one's income limits. Credit does have its place though, and it is up to you to use it wisely. Setting limits is a relatively easy process, especially if you are doing consistent financial planning. Refer to your budget worksheet. Is there any money left after you have paid fixed expenses? If so, you might safely commit this amount to credit payments without compromising your budget or risking future problems. On

the other hand, if there is no money left, you could be jeopardizing money you will need for food, utilities, and necessities. Don't do it!

There are several warning signals to indicate to you that your use of credit is getting out of hand:

1. Using more than 20% of your take-home pay to pay consumer credit bills (not including a mortgage);
2. Juggling obligations. . . paying one this month, another next month;
3. Cutting back on necessities to make credit payments;
4. Contemplating a consolidation loan to pay for consumer credit;
5. Having wages garnished;
6. Experiencing stress and anxiety because of financial worries.

Any one of these conditions should be a warning signal to you that you are in potential financial difficulty. However, if the above situation does, in fact, exist, there are things that you can do:

1. Don't ignore your bills; they won't go away.
2. Cut up or lock up all of your credit cards.
3. If you don't do so already, begin to plan your finances on paper and stick to your plan! Determine the exact amount that you can afford to pay each month on credit accounts.
4. Call each of your creditors. Arrange an appointment, if possible, to explain your situation and request new payment arrangements. Negotiate with them by phone if you cannot arrange a face-to-face discussion. Creditors would much rather negotiate a workable payback schedule than bear the expense of pursuing your delinquent account.

PLANNING WITH TAX TIME IN MIND

The first step in preparing for tax time is to select a tax advisor (tax attorney or accountant), if you are not working with one already, and to review your financial situation with that person. Do this, not in the weeks or months just before April 15, but at least a year in advance so that you can utilize the suggestions in your financial planning, can keep all forms, receipts and documents you will need at tax time, and can benefit generally from the advisor's expertise. There may be aspects of your situation that would contribute to a reduction of your tax liability, deductions to which you are entitled but with which you would not be familiar without professional counsel. A tax advisor can help you to determine whether or not you can itemize your deductions, and if so, what documentation you will need to do so. In order to itemize and do so advantageously, your deductions will have to exceed the standard deduction established each year by the government. Because of the types of expenditures that can be itemized, you as a professional school student with large loans in repayment, a relatively low income and a new career may be in a position to benefit from this option. Textbooks and equipment used to further your education, professional dues, professional journal subscriptions, the cost of attendance at professional conferences, malpractice insurance costs, medical expenses, and interest - whether on educational loans, a home mortgage, or credit purchases—can all be included. Income averaging might be another strategy for reducing your tax burden and providing you with more actual income, certainly worth pursuing with a tax advisor.

The case for seeking and using a professional tax advisor, mentioned at the beginning of this chapter and re-emphasized here, cannot be over-stated. The assistance provided is well worth the time, effort, and money involved, and most persons who have followed this recommendation have found the results invaluable in both the short and long-terms.

V. THINKING ABOUT FUTURE INCOME

"If I had a nickel for every time that someone said 'This will be worth it in the end', I'd be rich!" Countless residents make this statement. And yet, while physicians' incomes do exceed those for many other occupations, the variance in income among physicians is great and there is no ironclad guarantee that for you, financially speaking, it will be worth it in the end.

Because your choice of a medical specialty will have an influence on your future income, you should be aware of the income potential of your chosen specialty and do your financial planning accordingly. Salary survey results are currently published periodically in the *Journal of Medical Economics*, to name just one source of this data.

With few exceptions you can expect an increase in salary when you complete your residency and enter practice. As at the beginning of residency, this increase can generate a spending explosion when you no longer wish to delay gratification of the material desires you have deferred for so long. All your student loans will be payable at this time creating a sizeable monthly expenditure. Even with an increased income, you could find yourself overextended quickly. Also, you may have start-up costs if you elect to begin practicing after your residency, and you will surely have added and significant insurance payments.

This is not a time to forget about your spending plan and the goals that you worked so hard to establish earlier. Evaluate and redesign your budget to correspond with your new situation, but do not abandon it.

The year following completion of residency may find you moving to a new community and becoming involved not only with personal financial decisions, but with business decisions as well. If you have not already done so, this is the time to seek personal and professional tax counseling as well as investment and business management advice.

Financial planning is never-ending. It is a dynamic process that changes as your financial situation changes, but is basically the same process regardless of how much or how little money is involved. The early practice of prudent, realistic and careful management of your money can provide you with financial stability in later years. It is worth the investment of your time, energy, and persistence.

GLOSSARY OF TERMS USED IN THIS MANUAL

ACCRUED INTEREST: Interest that is accumulated to be paid in installments at a later time (usually when the principal becomes due) rather than being paid on a regular schedule from the time the loan is made. Accrued interest may be compounded or simple.

ADJUSTED GROSS INCOME: Income after all deductions, such as social security payments, federal, state and local taxes, health and life insurance premium payments, and retirement benefits; also referred to as net income.

BALLOON PAYMENT: The last payment of a loan that is much larger than the preceding payments. When balloon payments occur, frequently the borrower cannot afford to pay the balance, necessitating the negotiation of another loan to pay off the first one. If there are to be balloon payments, they should be clearly stated in the loan contract.

BANKRUPTCY: A legal action in which a person who is unable to meet financial obligations is declared bankrupt by a decree of the court; under the Federal Bankruptcy Law this person's property becomes liable to administration to satisfy creditors.

BORROWER: Any "legal entity" who obtains funds from a lender by the extension of credit for a period of time; said borrower signs a "promissory note" as evidence of the indebtedness.

CANCELLATION: Unlike regular consumer loans, the balance of a student loan may be cancelled upon the death or disability of the borrower. Student loans may also be cancelled in full or in part for service in a particular geographic location or in a particular field. Each service-cancellable loan has its own stipulations.

CAPITALIZING INTEREST: Having interest payments added to the principal amount borrowed rather than paying them as they become due in the period between assumption of a loan and its repayment period; doing this increases the principal and thereby adds significantly to the monthly payment during the repayment period.

COMPOUNDED INTEREST: The action by or the frequency with which interest is computed and added to the principal to arrive at a new balance. If the promissory note indicates that the interest will be compounded, the lender will, at stated intervals, assess interest. The first time this is done, the interest rate will be computed on the original principal; the sum of this first interest amount and the original principal become the new amount on which the next interest assessment is made. Note: Given the same rate of interest and the same original principal for the same length of time, a borrower will pay back more if compound interest is charged.

COSIGNER: A second credit-worthy party who is required to sign a promissory note for a loan with a borrower who has no collateral or credit history; this party, by signing, guarantees that the loan will be repaid if the borrower defaults.

CREDIT BUREAU: An agency that compiles and distributes credit and personal information to creditors. Such information may include payment habits, number of credit accounts, balance of accounts, and length and place of employment. Note: You have the right to examine your credit file, and to explain or correct information. There is usually a fee for this but there is no charge if you have been denied credit because of information in the file.

CREDIT LIFE INSURANCE: Some credit and loan contracts require that the borrower purchase life insurance to cover payment of the debt in the event of his or her death. The creditors cannot require that the insurance be bought from them. If such insurance is required you are well advised to comparison shop so that you can compare costs and benefits.

DEFAULT: Failure to meet financial obligations on maturity of notes or contractual agreements; failure to make loan payments at stipulated times. Defaults are recorded on the permanent credit record and can result in liability for prosecution.

DEFERMENT: A specified and limited period of time during which payments on principal and interest need not be made; deferments can in some cases be granted for residency and further study.

DEFERRED INTEREST: Interest payments that are delayed while a borrower is not gainfully employed; when the borrower again becomes a wage earner, the interest payments are resumed. This benefit is generally characteristic of federal and state guaranteed student loans.

DISCLOSURE STATEMENT: Statement of the actual cost to the borrower of a loan, that is, the interest rate and any additional finance charges. This must be presented to the borrower by the lender at the time the promissory note is signed and the loan contract negotiated.

DISCOUNTED NOTE: Deduction of the interest from the principal by the lender at the time the loan is issued. The borrower must still repay the full face value of the note. It is important to note that this practice raises the interest rate.

FIXED INTEREST: Rate of interest which does not change during the life of the loan, is determined at the time that the loan is negotiated, and is given in the disclosure statement and the promissory note.

FOREBEARANCE: A special arrangement whereby a lender may delay principal and/or interest payments to relieve a borrower's financial hardship during the repayment period.

GRACE PERIOD: The reasonable length of time allowed by programmatic specification for postponed payment of loans for which a borrower incurs no loss or penalty. Some loans enter repayment immediately following the borrower's graduation; others have a grace period so that repayment does not begin until several months after graduation.

GROSS INCOME: Total contract salary; income before deductions.

INSURANCE FEE: A fee charged for guaranteed student loans that is actually default insurance; it is usually deducted from the principal, and the amount charged is based on the borrower's year in school and the grace period.

INTEREST: The price paid or fee charged for the use of borrowed money, computed as a percentage of the principal borrowed for a given period of time; it is tax deductible to the borrower.

LEGAL RATE OF INTEREST: The maximum rate of interest for the kind of transaction permitted by laws of the state having jurisdiction over the legality of such transaction.

MATURITY DATE: The date upon which a promissory note becomes due and payable.

NEED ANALYSIS: The computation of expected student and family contribution to the cost of a medical education and consequent "need" for financial assistance; it is based on analysis of detailed financial information about the income and assets of students, spouse, and family.

NET INCOME: Income after all deductions, such as social security payments, federal, state and local taxes, health and life insurance premium payments, and retirement benefits; also referred to as adjusted gross income.

ORIGINATION FEE: Fee charged by a bank to process a loan; when charged it is deducted from the principal.

PAYOUT NOTE: Conversion of the interim note or notes to payout status; at this point, a borrower begins to repay the principal with interest according to a repayment schedule negotiated prior to the issuance of the payout note.

PRINCIPAL: The face value of the loan; the amount upon which interest is charged.

PROMISSORY NOTE: A legally binding contract between a lender and a borrower which includes all the terms and conditions of the loan and is signed by both parties at the time the loan is made; promissory notes should be signed for every loan negotiated.

RECORDATION: The act by which all loans and contracts are recorded locally or federally as standing legal obligations.

SIMPLE INTEREST: Interest calculated on the original principal only.

VARIABLE INTEREST: Rates of interest that are tied to a certain index (depending on the loan) and change periodically as the index changes.